FARMLINE

United States Department of Agriculture

Economic Research Service

Volume X
Number 7
July 1989

Farmland Values Regaining Lost Ground

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PERSPECTIVES

THE FARM FINANCIAL OUTLOOK REMAINS FAVORABLE. Both crop and livestock receipts are expected to be at record high levels in 1989, according to ERS economists. Crop receipts, which jumped by 17% last year, are likely to be up 2-4% this year, climbing above the 1985 record of $74.2 billion. Livestock receipts may approach the $81 billion level, which would surpass the record set last year. Economist Bob McElroy provided the following details:

A large increase in net farm income is likely this year, due to higher crop and meat production, combined with strong prices and only moderately higher expenses. Gross cash income may be unchanged from 1988. An expected 2-3% boost in commodity receipts over the 1988 record of $150.2 billion would offset an anticipated 20-25% decline in direct government payments. With large production gains, total gross income (cash income plus nonmoney income plus inventory changes) should grow nearly 10%.

Wheat receipts should rise the most, among the major crops, this year. Continued strong demand is expected to keep upward pressure on wheat prices throughout 1989, even with the projected 13% increase in production. Ending stocks for the 1988 crop have been estimated at only 20-25% of total use, compared with an average of 65% in the previous 5 years.

Corn receipts should remain stable this year. Planted acres are expected to be up by 8%. Prices are expected to decline only moderately in 1989, with demand remaining strong and stocks likely to be more than 50% below 1987/88. Corn exports are forecast up more than 20%, led by Soviet purchases.

Soybean receipts are expected to be unchanged, after a 25% gain in 1988. Production should be up, as farmers have said they would plant 5% more acres this year. Season average prices are expected to fall by at least 15%, but exports could increase by about 10%.

Cotton receipts are likely to be down by 4% this year, after an increase of more than 15% in 1988. Planted acres are expected to fall 12% from last year. Greenhouse and nursery receipts are likely to grow by 5%, after 10% annual increases since 1982.

Poultry receipts should be up substantially. Broilers are expected to record an 18-20% increase, with turkey and egg receipts up more than 20%. Receipts for cattle and calves are likely to remain near 1988's record level. Hog receipts are expected to be stable after a 10% decline in 1988. Dairy receipts should be up moderately.

The drop in government payments of more than 20% will mean a total 2-year decline of nearly 40% since 1987's record high level. Deficiency payment rates for wheat and feed grains were reduced when the 1988 drought led to higher crop prices.

The asset values and equity of U.S. agriculture should increase in 1989. The upward trend in those categories began in 1987, after a downturn that started in 1982. Assets should reach $785-$795 billion by the end of this year. Little change in total farm debt is expected.

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Practical economic intelligence from USDA's Economic Research Service

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U.S. farmland values have increased for the second year in a row, after several years of decline. But the recovery has not been uniform throughout the country. An ERS economist analyzes the trends and prospects.

Egg Industry Adjusting to Difficult Times *by Wendy Pinchas* 6

Consumption of eggs in this country has been decreasing for 40 years. Among the factors in the decline are consumer concerns about cholesterol and salmonella poisoning. Egg producers are responding to the difficult times with new production procedures and new products.

'Market Areas' Help Describe Rural Economy *by Doug Martinez* 10

Revitalizing the nation's rural communities may require new ways of looking at the economic framework. Social scientists have identified "local labor market areas," which are a help in understanding the rural economy.

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Farmland Values Regaining Lost Ground

The $597 per acre average value of U.S. farmland as of February this year was 6 percent higher than a year earlier.

The increase in the value of their property was good news for owners of farm real estate. Last year they saw a 3-percent rise in farmland values after 5 years of decline.

The February 1989 level, however, was 27 percent below 1982's record of $823. Yet it was a positive sign after a year of slightly higher interest rates on farm real estate loans, drought in many areas and uncertainty about this year's growing conditions, plus reductions in government payments to farmers.

Economist Roger Hexem of USDA's Economic Research Service says that farmland values primarily reflect expected returns to land and the interest rate on real estate loans.

Net cash income to farmers and ranchers in 1988 nearly matched the 1987 record level.

Farmland values are based on expectations of future economic conditions and when those conditions are favorable, farmland becomes more valuable.

Although farmers hit by the 1988 drought experienced lower crop yields, grain producers and those holding grain stocks benefited from sharply higher market prices during the second half of the year. Rising prices helped boost receipts from crops to the highest level in 3 years. Also, receipts from livestock were at record levels in 1988.

The Conservation Reserve Program continues to strengthen farmland values in some areas.

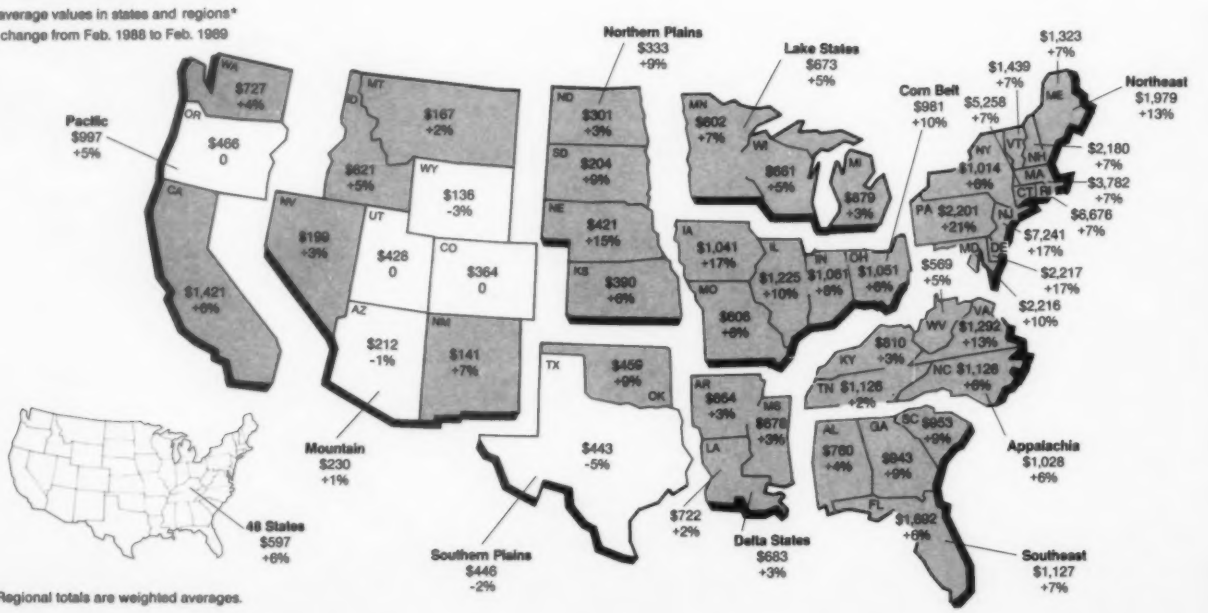
Farm real estate debt continued to fall in 1988, down 5 percent from 1987 and 27 percent from the 1983 peak, signalling a stronger financial position for many producers. In 1988, an estimated 75 percent of U.S. farmland that changed hands was purchased by active, retired, or tenant farmers.

However, ERS economists say that higher interest expenditures on land purchases are expected as land values increase, and interest rates move up slightly.

When considered in terms of dollars adjusted for 5 percent inflation, the rise in farmland values is only 1 percent above last year. However, the 1989 real value was 47 percent below the 1980 high in real values.

Although the national average farmland value showed an upturn in February 1989, not all areas of the country were moving at the same rate. The highest farmland values per acre were in the northeastern

Farmland Values Rose in All But Six States, and Among the Farm States Iowa and Nebraska Showed the Greatest Gains



*Regional totals are weighted averages.

states—Rhode Island ($6,676), Connecticut ($5,258), and New Jersey ($7,241). Other state values ranged from $1,323 per acre in Maine, to $3,782 in Massachusetts. Pennsylvania had the highest increase over last year's values—a 21-percent rise to $2,201 per acre.

Proximity to major cities in the Northeast means that farmland competes with urban and suburban uses, raising its value, says Hexem.

Of the major farm states, the greatest change in farmland values was in Iowa, which had a 17-percent rise over the previous year. This was not quite as strong as the preceding year's 19 percent, however. Nebraska showed the next highest increase at 15 percent, after a previous year's hike of 9 percent.

Increases of 5 percent in the Pacific region and 1 percent in the Mountain region were the first gains in those areas since 1984. The 3-percent increase in the Delta States was the first since 1981.

Hexem says lower pasture values (pasture accounts for about two-thirds of the land in farms and ranches) and only partial recovery in the state economy following the drop in energy prices in 1986 contributed to a 5-percent decrease in Texas farmland values. But Texas is large, with a varied economy, and in some areas farmland values did not decline.

Cash Rents Increase

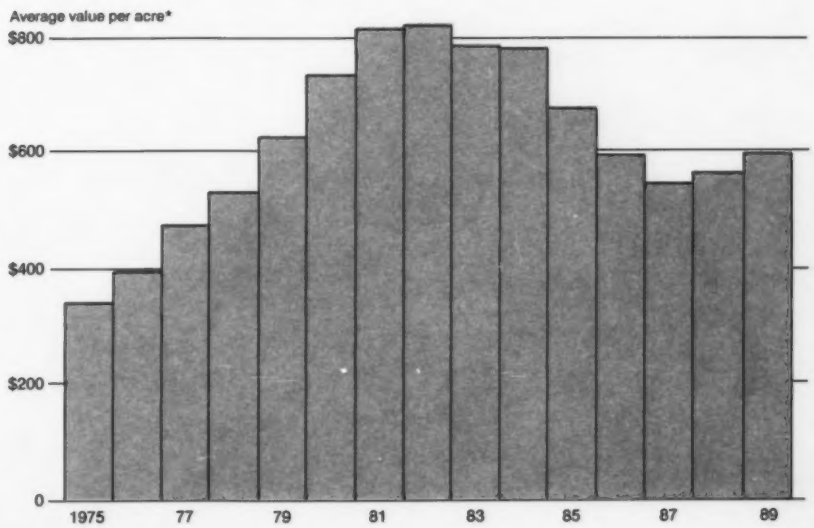
Cash rents for cropland in 1989 tended to be higher in most states, especially in the Corn Belt and the Delta. Hexem says that rent increases in these regions probably resulted from much higher corn and soybean prices compared with 1988 levels.

The ratio of cash rents to land values was unchanged or slightly lower for most states, except for the western states where rents increased more than cropland values.

Cash rents for pasture were near the 1988 levels for most states, but noticeably higher in the Delta. Record high cattle prices in 1988 helped maintain and increase pasture rents. □

[Based primarily on information provided by economist Roger Hexem of the Resources and Technology Division, Economic Research Service.]

An Upturn in Farmland Values, Started in 1988, Continues



*48 states, excluding Alaska and Hawaii.

Egg Industry Adjusting To Difficult Times

It doesn't take an egghead to figure out what shape the U.S. egg market is in these days.

Americans are eating fewer eggs than they used to. Some egg producers have therefore seen a reduction in their receipts and profits.

"Some firms have left the egg business because of the drop in consumption," says economist Bob Bishop, formerly with USDA's Economic Research Service.

Per capita consumption has been falling since the end of World War II. In 1945, Americans consumed a record high 403 eggs per person. In 1960 the figure was 320, and by 1988 it was 244.

And the latest projection is that Americans will eat 10 fewer eggs per person in 1989 than they did last year, Bishop says.

Egg production is expected to be down 3 percent to 5.6 billion dozen in 1989. Last year, net returns to producers were the lowest in 16 years, averaging minus 5 cents per dozen. Returns should be a little better this year—about 4 cents a dozen—Bishop says.

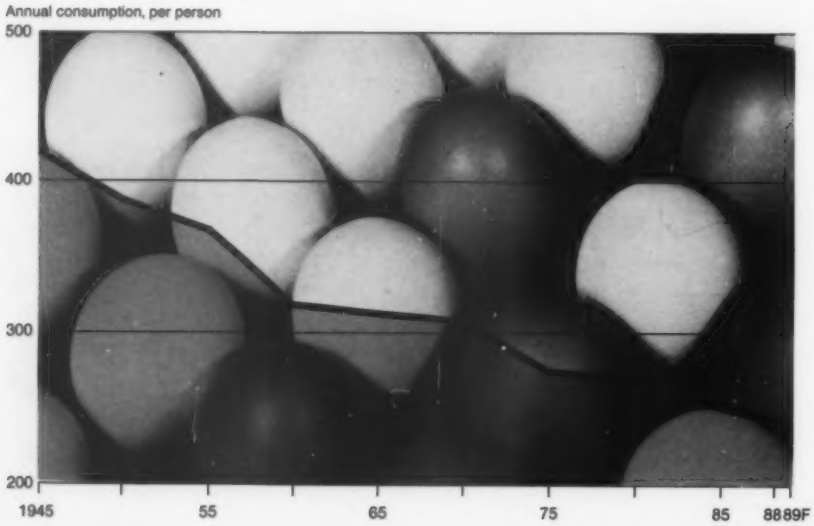
Per capita consumption of eggs has been falling since the end of World War II.

Commercial egg production is still big business, however. Cash receipts topped $3 billion in 1988. Eggs ranked eighth in cash receipts among all U.S. agricultural commodities in the 1960-87 time period. Eggs were almost as big a money maker as broilers during those nearly 30 years.

"Business opportunities are especially good in the egg products market," Bishop says.

The market for "table eggs"—the whole eggs consumers buy at the supermarket—is less encouraging than that for "breaker eggs," which are used in processed products such as cakes, ice cream, and even shampoos.

Egg Consumption Has Been Dropping Steadily



Farm weight. F=forecast.

Health concerns, especially about salmonella bacteria and cholesterol, are among the factors that have contributed to the decline in the demand for eggs.

The Salmonella Problem

Salmonella is one of the most common bacteria associated with food poisoning. Historically linked to poultry consumption, salmonella causes flu-like symptoms and occasionally can even be fatal.

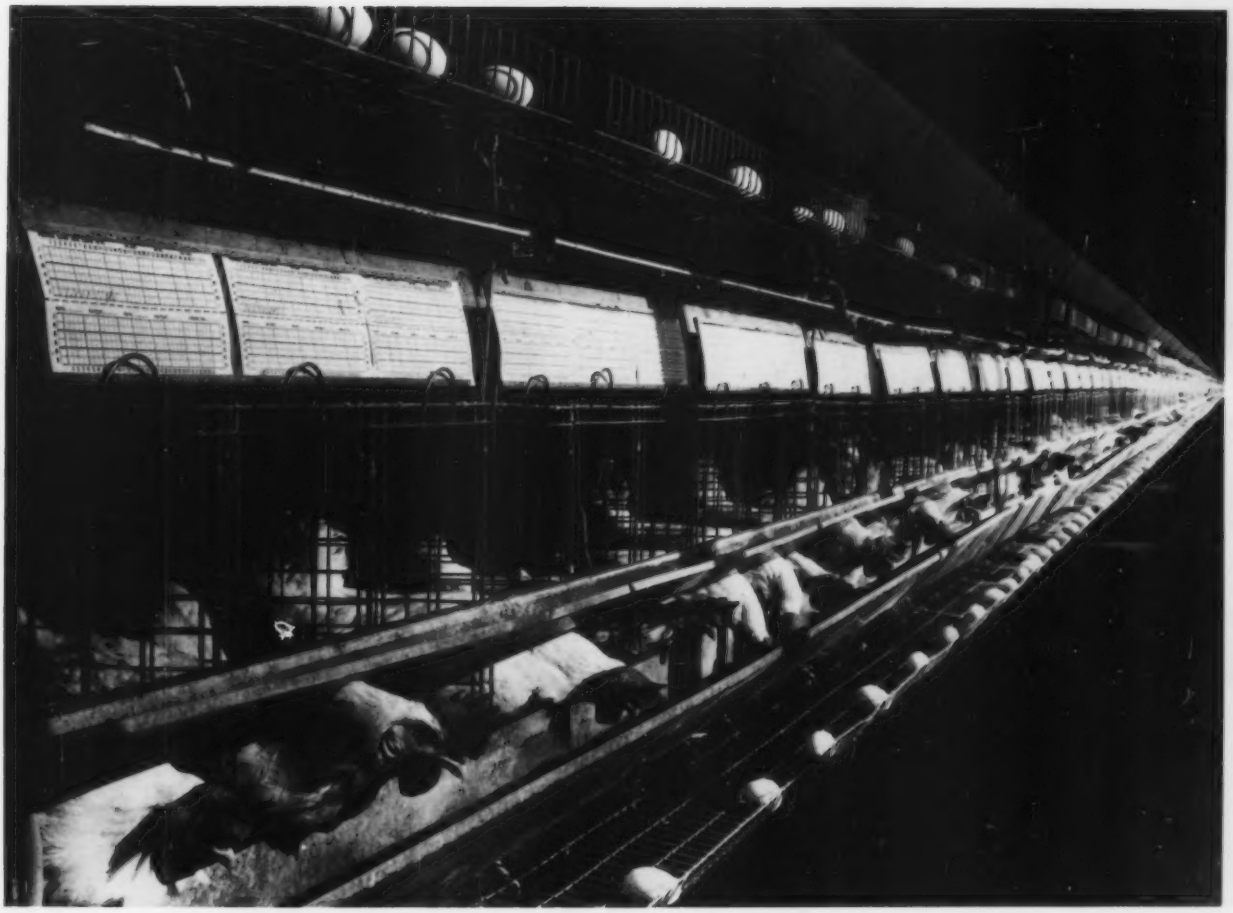
Of the more than 2,500 types of salmonella bacteria, one—*Salmonella enteriditis*—is associated with eggs. Food poisoning from eggs contaminated by this type of salmonella bacteria has been increasing in the 1980's, according to the U.S. Centers for Disease Control (CDC), particularly in the Northeast and Middle Atlantic states.

The CDC estimates that eggs were responsible for nearly 25 percent of the food poisoning cases in the Northeast. The number of food poisoning cases that were reported as caused by the salmonella bacteria linked to eggs increased from 1.12 per 100,000 population in 1976 to 7.16 per 100,000 in 1986, according to the CDC.

The egg industry and U.S. government agencies agree that defeating the bacteria will require improved production and processing methods. Reducing the bacteria in feed and feed ingredients and eliminating conditions that encourage the bacteria to spread are the best bets for reducing egg and poultry contamination. Testing of flocks, particularly breeder flocks, is one approach to preventing the spread of the bacteria.

The American Egg Board, which represents U.S. producers, says that eggs are safe to eat, but supports efforts to reduce bacterial contamination. The board recently made available a salmonella information kit to help the industry respond to public and press inquiries.

USDA and the Food and Drug Administration (FDA) say eggs are wholesome and nutritious, but special care in preparation should be taken, especially for high-risk groups, such as the elderly, children, and pregnant women. Heat kills salmonella



bacteria, so eggs should be cooked until both yolk and white are firm, the government says.

Cholesterol Concerns

Eggs accounted for nearly 40 percent of the cholesterol in the diets of groups surveyed by USDA's Human Nutrition Information Service in 1985. Medical research has implicated cholesterol in heart disease.

USDA determines the nutrient content of foods, including the amount of cholesterol in eggs. When eggs were tested in 1976, Grade A large eggs were found to have 274 milligrams of cholesterol each.

"Industry is concerned that this level is out of date, and they're right," says Janice Lockard, chief of the standardization branch for poultry with USDA's Agricultural Marketing Service. As a result, the industry funded a national cholesterol test of eggs.

Results of testing have established the dietary cholesterol level at 213 milligrams per large egg, which is about the level that many private firms have been advertising their eggs.

"A general reduction in cholesterol in eggs has occurred over the last 15 years," says Dr. Gary Beecher, research leader at USDA's Nutrient Composition Laboratory in Beltsville, Maryland. He believes the explanation lies in different ways of managing and feeding laying hens, and perhaps in better techniques for measuring cholesterol.

"You can test eggs for cholesterol, but you can't predict the level will be constant, just like your own blood cholesterol level," Lockard says. Researchers say it could be 180 one time, and 210 or 280 the next, depending on the age of the flock, differences in feed, time of year, or type of methodology used.

USDA offers a voluntary grading service for which egg producers pay a fee. Eggs are graded based on quality factors. "Companies feel customers trust the product more if they see Grade A," Lockard says.

Egg products have been subject to mandatory inspection since 1971. USDA's Agricultural Marketing Service is responsible for inspecting egg products, which are those eggs at the plant that will be headed for processing, not the table market. These are dried, frozen, or liquid.

Other Factors

Demographic factors also are cited as additional reasons for the decline in consumption of eggs. More women are working today and have less time to cook, ERS economists say. The highest use of eggs traditionally has been for breakfast, followed by home baking.

Another factor may be the shift from a blue-collar work force to more of a white-collar work force, economists say. The big breakfasts that were traditional in blue-collar families have become less common as this population declines.

The egg industry is responding in several ways to the decline in demand for its product.

"There's definitely a move on to promote eggs as not just a breakfast food," Bishop says. The industry is turning to convenience foods and the microwave market as areas of promise for the future, he says.

The future growth of the egg industry lies more in processed products than in table eggs, Bishop says. □

[Based largely on information provided by economists Lee Christensen and Tanya Roberts of the Commodity Economics Division, Economic Research Service; Bob Bishop, formerly of ERS; Janice Lockard of the Agricultural Marketing Service; and Dr. Gary Beecher of the Nutrient Composition Laboratory, Agricultural Research Service.]

Egg Products Are Booming

"The egg products market is the most dynamic segment of the industry right now," former ERS economist Bob Bishop says.

Although table eggs accounted for 88 percent of U.S. production in 1988, the number of eggs produced for the processed market is growing.

In 1952, about 290 million dozen eggs were used for processed products. In 1987, the figure had climbed to a record 942 million dozen.

"The egg products market is booming," Bishop says. In 1987, egg product consumption stood at 43.1 eggs per person (shell equivalent) or 17 percent of total egg consumption, nearly double the 9 percent of 1960, according to figures compiled by Bishop and colleague Mark Weimar.

Egg products are available to manufacturers in three forms: liquid (for immediate consumption), frozen, or dried. Each has about an equal share of the market, Bishop and Weimar report.

Egg products go into the making of cakes, ice cream, pastas, and other food products. A small amount is used for nonfood items such as shampoo and pharmaceuticals. The hotel, restaurant, and institutional (HRI) industry is a big user.

Whether the egg products market continues to grow will depend upon the level of demand in the HRI and manufacturing industries and on new product developments, the economists say.

Two of the latest product developments are:

- Simplesse, an egg product without the fat, which its developers claim tastes the same.
- An ultra-pasteurized liquid whole-egg product, which is seen as a substitute for shell eggs. The product just received USDA and FDA approval. With a 45-day shelf life, it comes with definite labor and storage savings.

The Costs of a Ban On Soil Fumigants

Farmers who use fumigants to control soil-borne pests in tomatoes, potatoes, citrus seedlings, tobacco, and a few other crops could lose $100-$200 million annually if fumigants are banned.

Producers who have not used fumigants might be better off by $500-$800 million per year, if fumigants were banned, because commodity prices would rise.

Consumers might pay $3-$5 billion more annually in the short run, with possible price increases of 50 percent for fresh tomatoes, and close to 10 percent for potatoes and canned tomatoes. Prices of cotton products, citrus fruit, and frozen juice would not be affected significantly.

These economic effects on producers and consumers were estimated in a study conducted by USDA's Economic Research Service. Economist Joe Barse, who headed the project, says the economic analysis was based on an earlier biological study of the effects of banning soil fumigants.

Fumigants are widely used in U.S. agriculture to control plant diseases and parisitic nematodes and less widely used to control insects and some other pests. They are applied before crops are planted.

The Environmental Protection Agency (EPA) has cancelled some fumigants, such as ethylene dibromide (EDB), because of perceived health hazards. Other fumigants are under close scrutiny for possible regulatory action, Barse says.

The ERS study focused on the effects of fumigant bans on growers and consumers of 10 crops: fresh tomatoes, processing tomatoes, potatoes, citrus fruit (oranges and grapefruit), tobacco, cotton, tomato seedlings, citrus tree seedlings, tobacco seedlings, and forest tree seedlings.

Seven scenarios, representing hypothetical patterns of fumigant bans and availabilities, were analyzed.

If all fumigants were lost, average effects on producers can be summarized as follows:

Fresh tomatoes: Growers would benefit slightly from increased net revenues of 3 percent in the West and 4 percent in the East. Eastern yields on normally treated acreage would fall 64 percent, leading to sharply lower total production and higher prices. Higher pest control costs would almost cancel out the increased revenue from higher prices. (About 63 percent of fresh tomato acreage in the East and 9 percent in the West is normally fumigated.) However, tomato imports could dampen the price rise, leaving U.S. growers much worse off, Barse says.

Processing tomatoes: Returns to Western growers would rise 7 percent of crop value without fumigants, mainly because prices would rise as yields fell by about 11 percent on normally treated acreage. Control costs would rise, but not enough to negate the price increases.

Potatoes: Net revenue of potato growers in the West would rise by 20 percent, while that of growers in the East would rise by 8 percent. Yields on normally treated acreage would fall 20 percent in the West and 34 percent in the East. Consumer prices of western potatoes would rise relatively more than prices of eastern potatoes because the supply in the West would drop more, since a much greater share of acreage is fumigated in the West.

Citrus seedlings: In the short run, the loss of fumigants would lead to alternative, higher cost methods of pest control for citrus nursery seedbeds, raising production costs by about $500 per acre for the 25 percent of the seedbed acreage where fumigants are used. In the long run, the seedbed operators would produce higher cost transplants, of less vigor, to be located in groves whose soils were no longer fumigated.

Tobacco and seedlings: Tobacco producers would feel the effect of fumigant loss in two stages. At the seedling stage, production costs would rise about $200 per seedbed acre, as fumigant use in seedbeds was replaced by nonfumigant chemicals, sterile mixes, and hand weeding. (Virtually all tobacco seedbed acreage is currently fumigated.) In the field stage, the cost of pest control per acre would rise $98 and overall yield loss would be about 4 percent. (About 50 percent of the tobacco field acreage is currently fumigated.)

Cotton: Cotton farmers would not be affected, since little cotton acreage is treated with fumigants. (Cotton was included in the study because the extent of fumigant use was not known.)

Tomato seedlings: Revenues of growers in the East, where almost half of the acreage is treated with fumigants, would fall about 11 percent if fumigants were not used. Yields on acreage that used to be treated would fall about 40 percent.

Forest tree seedlings: Growers of forest tree seedlings in the South would see their returns fall 39 percent, as yields fell by 75 percent on treated acreage. (In the South, more than 95 percent of tree seedbed acreage is fumigated and seedlings are harvested after a year. In the North, 23 percent of the acreage is fumigated and seedlings are harvested after 2 or 3 years.) Northern growers would be better off by about 6 percent of crop value the first year after fumigant loss because seedling prices would rise.

"The effects of fumigant loss must be interpreted with caution," Barse says, "because the proportion of acreage treated varies greatly by geographic region and by crop." He adds that effects on growers who use fumigants and those who do not can vary greatly.

"There could be a transfer of income from the growers most affected by fumigant cancellation to those least affected," he says. He notes that all growers receive the higher prices resulting from a reduction in yield, but the higher prices may not offset the lower yields and higher costs of those producers most affected.

The economist also cautions that the analysis does not include all production costs and when pest control costs change, other related production costs could change as well.

—Jack Harrison

'Market Areas' Help Describe Rural Economy

Strategies to spark economic growth in rural communities may be more effective when linked to "local labor market areas" rather than the usual units of towns and counties.

That's the view of political scientist Richard Long of USDA's Economic Research Service, who says that such areas provide a more realistic description of the modern local economy.

"Identifying labor market areas is about as close as we can come to mapping all the separate economic communities in the United States," says Long. "People are generally able to satisfy most of their economic needs, both as buyers and sellers, within the boundaries of a local economic community."

He adds that "a labor market area is much more economically self-contained and offers much more than a single town, city, county, or even a group of nearby counties."

Certainly, some labor market areas are too small to support all the specialized economic enterprises that every major metropolitan area contains. But there are still benefits obtained by bringing separate towns or counties into a single local economy (on paper, at least, for planning purposes).

"That means that the whole adds up to more than the sum of the parts, if those parts were isolated from each other," says Long. "This is how rural people can support regional medical and shopping centers, for example, or any very specialized business enterprise."

Changes in Lifestyles

He says that thinking in regional terms simply takes into account modern ways of working and living.

"Many rural people now drive five or ten times the distances their parents traveled to work and shop," says Long. "For practical purposes, a rural economic community is many times larger than before, both geographically and in population, primarily because of the automobile and steadily improving roads and highways."

Identifying labor market areas is about as close as we can come to mapping all the separate economic communities in the United States.

In fact, commuting patterns helped shape the boundaries of local labor market areas.

"To find the best approximation of local economies, USDA economists and demographers looked at information on commuting gathered by the U.S. Census Bureau in 1980, " he says. "With the help of computers they pinpointed the most common commuting patterns and clustered them into distinct areas. In effect, these areas encompass both the place of residence and the place of work of a local population."

Long acknowledges that dealing with this concept of "economic geography" may be difficult for Americans accustomed to thinking of political units such as cities, counties, or states.

"When most people think of a community it is the political community they picture—a town or county," he says. "Towns have names and functions established by state law. Each has specific boundaries, legally defined powers and obligations, and a history. People identify with their communities and feel loyalty to them."

And, "since political communities are smaller than labor market areas, people still have a special stake in what goes on in their town or county. The political community is the immediate environment of a person's home and family, and a homeowner's property interest is probably most closely tied (by property taxes, for example) to the political community."

Long isn't asking people to forget—or feel less attachment to—these ties. But he is saying they should remember something else as well.

"It's vital to keep in mind that the vast majority of small places in rural areas come nowhere near being economically self-contained," he says. "Most little towns, and later, perhaps rural counties, were once economic communities in the same sense the labor market area is now. Townspeople didn't have to go far beyond the borders of the town to work or shop, as a general rule. But while economic geography has changed, political geography has changed hardly at all." (In a few cases, city and county governments have joined to provide some services, but usually not to the extent encompassed by labor market areas.)

The Tennessee Example

Long cites the case of Tennessee to show the fixed nature of political units.

"Jurisdictional boundaries are much like they were 150 to 200 years ago when most of Tennessee's small towns were incorporated and its counties laid out," he says. (Commuting patterns, after a fashion, may have been responsible for the size of the state's counties. According to the state's folklore, counties were pretty much mapped out by the ability of a man on horseback to get from the border of the county to the county seat and back home in one day. Typically, Tennessee's counties are fairly uniform in distance from one side of a county to the other—about 20 to 25 miles—with the county seat somewhere in the middle.)

Long says the changes in rural areas—accelerated by the automobile and improved transportation networks—can be seen in the way people shop.

"Typically, rural towns have lost some of their old economic functions," he says. "Many small stores and movie theaters have closed, for example. But often they have closed because local people chose to drive past them on their way to a regional shopping center, often a mall, a few miles down the road. Choices of product are greater there and prices have often been lower."

At such regional shopping centers, young people find a range of entertainment much greater than their parents found in "going to town."

In addition to greater recreational choices, rural residents also have more alternatives when it comes to health care.

"Not every small town can afford to have a decent hospital, though most of them would like to very much," says Long. "But research has shown that more than 85 percent of the rural population is within a half-hour drive of a medical facility that offers many more specialized services than the small local hospital could ever have."

At the same time that the size of economic communities was expanding, a vast movement of people from country to city was taking place in America. From 1950 to 1980, about 18 million people made the move to urban areas.

Even so, he says, "the growth of rural labor markets has meant that some people who would have had to move to cities before the advent of the automobile and good roads can now work in a nearby community or even a large city and still live in their home towns."

"Economic Geography" Lessons

Long offers this background of recent history to show that "economic geography" should be taken into account in rural planning.

He also has some specific ideas about how it can be used in the planning process.

"Research indicates that one of the most serious problems in rural economies is a lack of knowledge about financial markets—and some fairly easily acquired business skills—among small business people, potential entrepreneurs, and even successful bankers," says Long. "Although rural people often complain that there is a shortage of debt capital, most studies have shown that loanable funds are available in rural areas, often on comparatively favorable terms because rural financial institutions are almost always further below their lending limits than urban institutions."

In fact, he says, "those who persist in trying to borrow to start or expand a business are usually successful (at borrowing at least)—if not in their own community, then within a reasonable radius of it."

Unfortunately, while rural institutions have comparatively more unproductive surplus capital than urban institutions, rural businessmen voice more frustration than their urban counterparts about the lack of money to borrow.

"The problem is not a failure of capital markets," says Long. "It is a failure of information markets. A logical and comparatively inexpensive step to stimulate rural economies would be to provide assistance to borrowers to find the money and make their case for loans. Borrowers need more information and better skills to assess alternative borrowing options within their wider economic community."

Bankers also need an information boost, he says.

"Small banks that have historically specialized in one kind of loan, typically loans to a dominant local industry like farming, sometimes lose confidence in their ability to assess risks in lending to businesses in unfamiliar sectors," explains Long.

Obviously government strategies to help rural people and institutions overcome these problems have to be organized at a broader level than a small town.

"No single small town could financially support a program of information or technical assistance for entrepreneurs or bankers," says Long, "because there would never be sufficient demand to justify the cost."

A State Approach

State-level programs also would not work very well, Long suggests.

"It is the distance of rural communities from larger and more active markets—not so much in miles as in the flow of information and ability to observe things firsthand—that is the very source of the problem," he says. "It isn't very likely that

a single, centralized state program would be very useful for rural people either."

A better way, Long says, "would be to organize assistance near the center or centers of the economic community, and to encourage lenders and borrowers to understand that they are part of that broader economic community with common interests in its well-being."

A similar approach could be taken with training programs.

"Many of the people who live in the largest metropolitan areas drive between 30 and 45 minutes to get to work," he says. "For almost all small towns, there is a much greater number and variety of jobs within a 45-mile radius than within the boundaries of the town itself. These better employment opportunities may help keep young people closer to home."

Long finds another benefit in using local labor market areas in the planning scheme: saving money on so-called "buffalo hunts"—the efforts to land large industrial plants employing many people.

Also known as smokestack-chasing, these efforts at industrial recruiting are the only strategy used by many communities to build their economies. "The attraction is clear—the potential benefits are obvious and apparently location-specific."

But bagging a "buffalo" or hauling in a "smokestack" has its drawbacks.

"A major criticism of offering inducements for relocation has been that the benefits, especially the jobs created, spill out of the jurisdiction that must pay for them in lost taxes or other ways and into other jurisdictions," says Long. "State departments that help communities in their recruitment efforts would do well to provide them with technical help in assessing the costs and evaluating benefits. That assessment should include realistic estimates of the likely level of 'economic leakage' in the form of jobs that go to people who live elsewhere in the local labor market area."

If recruitment efforts continue after such an analysis, Long says, "it would also make more sense to divide the costs of inducements more fairly among all jurisdictions whose people are likely to benefit."

With all the reasons to plan on the basis of local labor market areas, why hasn't it been done on a wide scale?

Long sees a natural reluctance to make changes when it comes to government.

"It is not a simple matter to reorganize government development strategies to take economic communities into account," says Long. "While people may not mind changing the way they shop and work, they are less willing for governments to change significantly."

Of course, political communities are still important, "and some economic as well as sentimental and convenience interests are clustered around them. Local officials are elected by the people of one town or county to act in the interest of that jurisdiction and its people, and the most geographically immediate interests are the clearest, if not necessarily the most important in the long run."

Then, too, "it is natural for people to prefer that new jobs be as close to home as possible, in their own political community which they hope will thrive. But if they understand the overwhelming power of economic markets and quickly adjust in their individual behavior—as they have for the most part in job hunting and shopping—why are they unwilling for their political community to make the obvious adjustments?"

The answer, Long says, appears to lie in an unrealistic sense of how powerful local governments are.

"Governments can affect the shape of economic markets in a major way, but only if they have and are willing to use sufficient resources," says Long. "At the moment, the resources used for targeted development are tiny compared to the markets they seek to influence."

Until Americans—and their elected representatives—understand the limits of what can realistically be achieved with state and local development efforts, he says, "they will continue to chase the perfect at the expense of the good."□

[Based primarily on information provided by political scientist Richard Long of the Agriculture and Rural Economy Division, Economic Research Service.]

Mandatory Controls: What Effects?

Mandatory restrictions on agricultural production continue to be advocated as an alternative policy for increasing farm income while reducing farm program costs.

This report measures the effects of several types of mandatory production control programs (MPCP's), comparing them with estimates of U.S. agriculture's performance through 1990 under the policies of the 1985 farm bill.

The study found that although farm income might rise in the short run under mandatory production controls, such programs would be costly to consumers and possibly to the federal Treasury. Export subsidies would be needed to maintain current levels of farm exports if an MPCP were used to raise prices.

The cost of such subsidies could exceed the savings that would result from eliminating government income support programs, the researchers found. An MPCP would affect agribusinesses by reducing the need for farm inputs and by reducing the volume of commodities to be transported and processed.

Also, the report states that programs which idle productive resources to maintain higher prices may lead to production inefficiencies.

This study indicates that an MPCP using acreage allotments that increase commodity prices to 80 percent of parity would increase aggregate net farm income by slightly less than $80 billion over a 5-year period while raising consumer costs by approximately $80 billion.

Federal outlays would increase roughly $12 billion, and 13 percent less land would be used for crop production. But an acreage allotment provides incentives to farmers to intensify the use of inputs, such as fertilizer and pesticides, on acreage in production.

Mandatory controls employing a marketing quota system, with the same objectives as acreage allotments, would increase net farm income slightly more than $84 billion, consumer expenditures $80 billion, and federal spending roughly $12 billion. Under such an alternative, less land would be idled (10 percent) because of less incentive to increase crop yields through more intensive use of inputs.

Economic Effects of Mandatory Production Controls *by C. Edwin Young, et al. Published March 1989; 27 pages; $5.50 ($7 to non-U.S. addresses).*

Top Commodities Maintain Rankings

Cattle and calves, dairy products, corn, soybeans, and hogs were the top five U.S. agricultural commodities, ranked by amount of cash receipts, during the 1960-87 time period.

Rounding out the top ten for that period of nearly 30 years were wheat, broilers, eggs, cotton, and greenhouse and nursery.

This report lists cash receipts, by state and overall totals, for the 25 leading commodities.

In 1987, cash receipts for cattle and calves totaled nearly $34 billion, dairy products almost $17.8 billion, hogs $10.3 billion, soybeans $9.6 billion, corn $8.8 billion, greenhouse and nursery $6.4 billion, broilers $6.2 billion, wheat $4.9 billion, cotton $4 billion, and eggs $3.2 billion.

California was the leader in cash receipts for all commodities each year from 1960 through 1987, with Iowa and Texas following closely. Eight states appeared on the top ten list every year from 1960 to 1987. They are California, Iowa, Texas, Illinois, Nebraska, Minnesota, Kansas, and Indiana.

Total U.S. cash farm receipts were computed by adding the estimates for about 120 crop and livestock commodities. The 25 leading commodities accounted for about 90 percent of total U.S. cash receipts, on average.

The authors of the report say that cattle and dairy products should continue to be the leading commodities into the foreseeable future. And they believe that relative changes between commodities or states are likely to be gradual.

Tobacco cash receipts will continue to decline relative to other commodities, the analysts conclude, because of continued emphasis on health concerns.

And receipts from greenhouse and nursery products are likely to gain as the popularity of landscaping and interior decorating continues to rise.

Leading Commodity Cash Receipts, 1960-87 *by Williams, Kubica, and Dixon. Published March 1989; 121 pages; $8 ($10 to non-U.S. addresses).*

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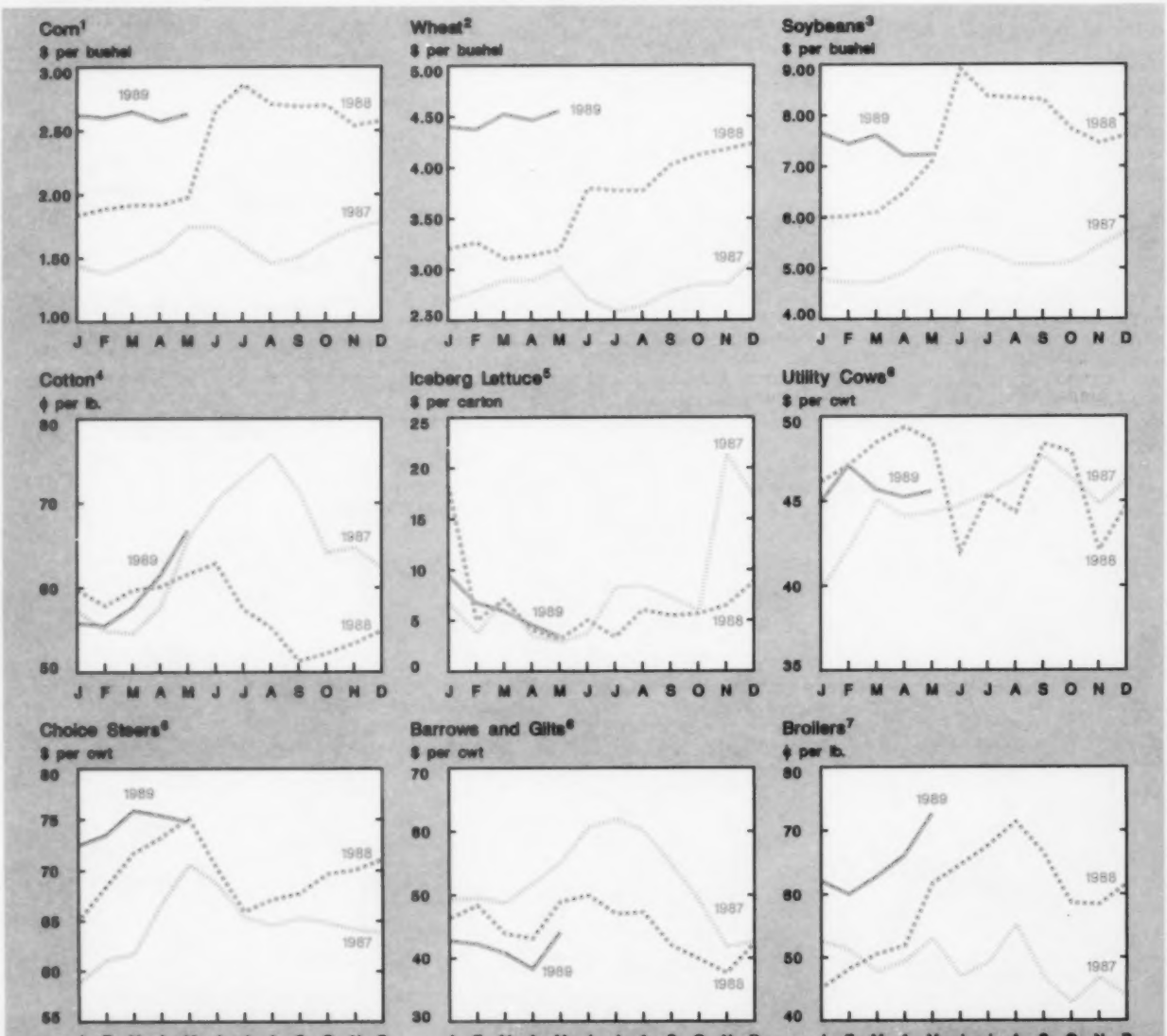
FARMLINE TRENDS

Monthly Price Monitor

USDA's May 1989 index of farm prices increased 2.7% from April and was 13% above its year-earlier level. Corn prices rose 6¢ to $2.63, while wheat increased 9¢ to $4.55 per bushel. Soybeans inched up a penny to $7.22 per bushel. Cotton gained 5.3¢ to 66.7¢ per lb, the highest since September 1987. Iceberg lettuce declined $1.15 to $3.33 per carton. In the meat animals area, broilers were a record high at 72.5¢ per lb. A strong demand by the fast food sector and reductions of other supplies of meat were responsible for the record. Choice steers, while still strong, lost 59¢ per cwt to $74.70. Utility cows gained 36¢ per cwt to $45.55. Barrows and gilts jumped $5.79 per cwt to $43.94. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.

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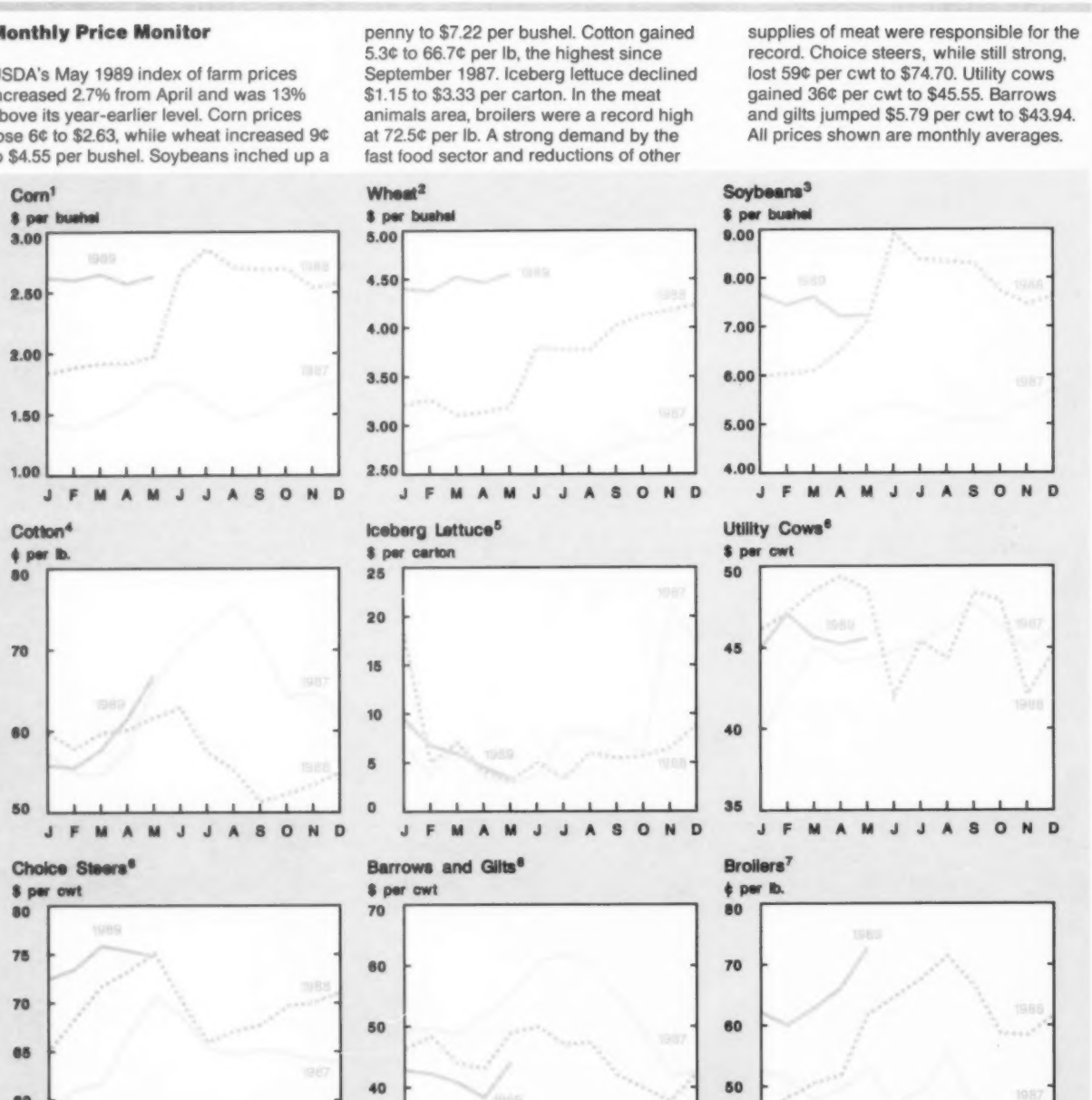

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Leading Export States

Ranked by Value of Agricultural Exports[1]

	1st	2nd	3rd	4th	5th	6th	7th	8th
Fiscal 1987								
All ag product exports[2] U.S. total: $27.9 billion	California $2.84 bil.	Iowa $2.26 bil.	Illinois $2.12 bil.	Nebraska $1.58 bil.	Texas $1.52 bil.	Kansas $1.51 bil.	Minnesota $1.37 bil.	Indiana $1.01 bil.
Fiscal 1988								
All ag product exports[2] U.S. total: $35.3 billion	California $3.39 bil.	Iowa $2.86 bil.	Illinois $2.62 bil.	Kansas $2.33 bil.	Texas $2.25 bil.	Nebraska $2.12 bil.	Minnesota $1.81 bil.	Indiana $1.36 bil.
Soybean & product exports U.S. total: $6.92 billion	Iowa $1.25 bil.	Illinois $1.17 bil.	Minnesota $658 mil.	Indiana $617 mil.	Missouri $561 mil.	Ohio $535 mil.	Nebraska $296 mil.	Arkansas $252 mil.
Feed grain & product exports U.S. total: $6.23 billion	Iowa $1.07 bil.	Illinois $993 mil.	Nebraska $761 mil.	Minnesota $547 mil.	Indiana $517 mil.	Kansas $355 mil.	Ohio $297 mil.	Wisconsin $274 mil.
Wheat & product exports U.S. total: $4.67 billion	Kansas $906 mil.	No. Dakota $539 mil.	Oklahoma $349 mil.	Montana $342 mil.	Washington $322 mil.	Texas $265 mil.	Colorado $259 mil.	South Dakota $240 mil.
Live animal & meat exports[3] U.S. total: $2.25 billion	Kansas $294 mil.	Texas $286 mil.	Nebraska $279 mil.	Kentucky $217 mil.	Iowa $185 mil.	Colorado $103 mil.	Illinois $87 mil.	California $81 mil.
Cotton & linter exports U.S. total: $2.15 billion	Texas $679 mil.	California $431 mil.	Mississippi $256 mil.	Arizona $153 mil.	Louisiana $145 mil.	Arkansas $132 mil.	Tennessee $95 mil.	Alabama $60 mil.
Hide & skin exports U.S. total: $1.84 billion	Kansas $305 mil.	Texas $285 mil.	Nebraska $278 mil.	Iowa $108 mil.	Colorado $103 mil.	Wisconsin $69 mil.	Illinois $68 mil.	California $66 mil.
Fruit & preparation exports U.S. total: $1.71 billion	California $889 mil.	Florida $377 mil.	Washington $150 mil.	Oregon $53 mil.	Michigan $49 mil.	Arizona $38 mil.	Texas $32 mil.	New York $28 mil.
Unmanufactured tobacco exports U.S. total: $1.30 billion	North Carolina $589 mil.	Kentucky $242 mil.	South Carolina $120 mil.	Virginia $95 mil.	Georgia $92 mil.	Tennessee $75 mil.	Connecticut $19 mil.	Florida $18 mil.
Vegetable & preparation exports U.S. total: $1.28 billion	California $570 mil.	Washington $126 mil.	Wisconsin $74 mil.	Michigan $64 mil.	Idaho $60 mil.	Minnesota $59 mil.	Oregon $54 mil.	Florida $42 mil.
Feed & fodder exports U.S. total: $873 million	Iowa $89 mil.	Minnesota $76 mil.	Nebraska $74 mil.	Illinois $73 mil.	Florida $65 mil.	California $49 mil.	Kansas $41 mil.	North Dakota $40 mil.
Tree nut exports U.S total: $780 million	California $745 mil.	Hawaii $14.9 mil.	Oregon $11.6 mil.	Georgia $3.4 mil.	Texas $1.2 mil.	New Mexico $0.7 mil.	Alabama $0.7 mil.	Louisiana $0.6 mil.
Rice exports U.S. total: $731 million	Arkansas $332 mil.	Louisiana $108 mil.	Texas $105 mil.	California $96 mil.	Mississippi $67 mil.	Missouri $23 mil.	—	—
Poultry & product exports U.S. total: $647 million	Arkansas $84 mil.	Georgia $77 mil.	Alabama $59 mil.	North Carolina $58 mil.	California $43 mil.	Indiana $43 mil.	Mississippi $35 mil.	Texas $32 mil.
Dairy product exports U.S. total: $535 million	Wisconsin $141 mil.	California $67 mil.	Minnesota $63 mil.	New York $32 mil.	Pennsylvania $27 mil.	Iowa $18 mil.	Washington $17 mil.	Missouri $14 mil.

[1]State origins of exports are not monitored as products move into export channels. The above statistics are estimates based primarily on each state's contribution to U.S. production or marketings of individual commodities during the fiscal year (fiscal 1988: Oct. 1, 1987-Sept. 30, 1988). Stock levels within states, estimates of how much feed goes to livestock, and other available data are used to adjust these figures. [2]Includes commodities not listed in this table. [3]Includes breed and race horses, excludes poultry.

Data were provided by economist Steve Milmoe of the Commodity Economics Division, Economic Research Service.

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